

Central Intelligence Agency



Washington, D.C. 20505

Handwritten signature and initials

Mr. Russel Neeley
CIA Budget Examiner
National Security Division Room 8215
Office of Management and Budget
Washington, D.C. 20503

Dear Russ:

STAT
Enclosed are responses to questions raised at our initial meeting on the Agency's retirement legislation and a follow-up meeting you had with [redacted] Following that same meeting, we have been working with our consultant/actuary to develop a more detailed spread sheet on the cost comparison of the current and proposed systems and the Roth/Stevens proposal. (This is included in Enclosure 6b.) We recognize that you wanted dollar figures to go along with the percentage costs, but there are some problems pointed out by our consultant in developing meaningful figures.

We are available to discuss this and any other aspect of our responses at your earliest convenience. If desirable, we can arrange to involve our consultant in those discussions to assist in resolving any questions you may have on our figures.

Sincerely,

Robert W. Magee
Director of Personnel

Attachment 1

INCREASED SECURITY PROTECTION

1. Except for a very few sensitive cases, (non-official cover, etc.) 100% of Agency employees are identified to OPM at some point either during employment or upon separation or retirement.

2. Under the Agency's proposal all employees would be protected while employed with the Agency. Upon retiring or leaving the Agency only those with prior federal service (approximately 11%) would involve some form of identification outside the Agency.

Attachment 2

COST OF PAYROLL AND JUSTIFICATIONS
FOR ENHANCEMENTS TO RETIREMENT PROGRAM

<u>ENHANCEMENT</u>	<u>COST OF PAYROLL</u>	
	<u>CSRS</u>	<u>CIARDS</u>
1. ° CAP (Thrift Plan)	1.4%	2.0%

These estimates are based on consultant actuarial assumptions using Agency demographics and assumptions similar to those utilized by Congressional Research Service for Government-wide supplemental retirement studies. The estimated annual dollar increase to provide this enhancement is (calculated by multiplying percentage times payroll.)

Justification:

This benefit is seen as very desirable by Senators Roth/Stevens for their Civil Service retirement programs. We want to offer it in concert with the principal of equitable treatment for all Agency employees. It is also attractive to more senior individuals and would serve to retain the critical skills of these individuals at a time when they are most marketable.

2. ° 2 1/2% Accrual Rate for overseas/qualifying service	.4%	6.4%
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The percentages are computed based on average overseas service for Agency employees. The estimated annual dollar increase to provide this enhancement is This represents a 30 year amortization of the increased cost (the same method used to amortize liberalized benefits and pay increases under existing statutory funding requirements.) Employees would revert to the appropriate accrual rate for domestic service, i.e. 2% for special participant members and 1.5%, 1.75% etc for members. (It is vital that this distinction in accrual rates be maintained to ensure appropriate rewards and recognition for the overseas career-oriented employees.)

Justification:

We are an overseas organization and the dangers faced abroad by Agency employees are considerably more hazardous than in the past. The fact that our employees are serving overseas under cover expands the risks considerably. We feel that such service for both members and special participant members should be recognized at a minimum in the same fashion as currently exists for law enforcement officers, fire fighters, etc. Exposure of our employees to hostile intelligence, internal security, and terrorist organizations increases daily. This is an appropriate step to reflect the changing overseas environment.

Attachment 3

U.S. GOVERNMENT COST OF PAYROLL FIGURES

	<u>ROTH/ STEVENS</u>	<u>CSRS</u>	<u>CIARDS</u>	<u>AGGREGATE</u>
CURRENT	--	25%	41%	34%
PROPOSED (Pre 1984 Employees)	--	26.8%	49.4%	39.5%
(Post 1983 Employees)	20.8%	* 27.3%	* 49.7%	* 39.8%

Comment: The above figures were developed by Ed Hustead of Hay Associates who is providing actuarial services in connection with our retirement programs. These figures are based on the same actuarial and economic assumptions that are being utilized in the evaluation of other retirement proposals being formulated in Congress.

* Differences between pre-1984 and post-1983 figures are attributable to intregation of social security for post-1983 employees.

Attachment 4

TRANSFERS IN AND OUT
OF THE SYSTEM

INTO

- Individuals transferring into the system with prior federal service will be handled the same as with current procedures and given credit for that service under CIA formulas. The money plus interest from the other federal retirement funds will be transferred into the Agency's retirement fund but will not be requested until actual retirement.
- Money in a government-wide Capital Accumulation Plan (CAP) (employee and government contribution plus accrued investment income) will be transferred to the Agency CAP, but again not requested until retirement.

OUT

- Individuals who transfer to other federal retirement systems who are not eligible for a retirement benefit again will be handled the same as under current procedures and have their contributions, government contributions and appropriate interest transferred to the other fund.
- Similarly, the individual's contributions, and government contributions to the Agency CAP and resulting investment income will be transferred to the government-wide CAP.

Note: According to our actuarial consultant the above methods for transferring funds will not incur any great unfunded liability.

Attachment 5

FUNDING OF NEW PLAN

Pending discussion with OPM and further study our initial views are that the Agency proposal would be funded through:

- ° A single retirement fund (for all active employees, CIARDS retirees and future CSRS retirees) that includes:
 - ° Monies from existing CIARDS fund
 - ° Transfer of money (no names) from CSRS fund for on board employees (employee contribution + government contribution + interest). An option would be to have the monies transferred at the time of retirement or some other mutually agreed arrangement between OPM and the Agency. Procedures are to be determined.
 - ° Future employee/government contributions
 - ° Additional funding through existing statutory provisions which are:*

Interest on Unfunded Liability

Residual Normal Cost

Annuity Payments Attributable to
Military Service

30 Year Amortization of Unfunded
Liability Created by General Salary
Increases, Liberalization of Benefits

- ° Investment Income

*Subject to modification to correspond to any changes in statutory requirements.

Attachment 6

COST & BENEFITS COMPARISON WITH STEVENS' PROPOSAL

Roth/Stevens Proposal

Pension	11.7%
FEGLI	.2%
CAP (Thrift)	3.0%
OASDI	5.9%
Total/Stevens	20.8%

Additions (Reductions) for Agency Proposal

	<u>CSRS</u>	<u>CIARDS</u>
◦ Maintain High-3 vs High 5	.9%	There has not
◦ Unreduced Retirement Benefits (55 CSRS)	.4%	been an analysis
◦ Maintain existing survivor/disability/involuntary retirement benefits	.3%	completed by
◦ Maintain Equivalent Accrual Rates (1.5 1st 5 yrs. etc) for CSRS		the Congressional
◦ 1.4% CSRS Basic Accrual Rates	2.7%	Research Service
◦ Supplemental equal to Social Security from retirement to age 62	.7%	(CRS) on the special
◦ Maintain Full COLA	4.0%	provisions (law
◦ Maintain Employee Contributions at 7%	(-1.1)	enforcement, etc.)
◦ No Increased FEGLI	(-.2)	of the Stevens' Plan.
◦ Establish CAP with 50% Match up to 6% of Employee Contribution	(-1.6)	As such no comparable
		comparisons currently
		available between
◦ 2 1/2% Accrual for Overseas Service	.4	CIARDS & the
		appropriate Stevens'
		provisions. This
		will be provided
		once data available.
TOTAL ADDITIONAL VS STEVENS	6.5	

System Proposed for CSRS Employees

Summary of Costs - As a percent of payroll

Cost Item	Current	Proposal	Total
Full-career retirement	12.5%	0.9% ^{.4}	13.4%
Disability	1.0%	.0%	1.0%
Survivors	1.9%	0.1%	2.0%
Cost-of-living	16.6%	0.7%	17.3%
Capital accumulation	0.0%	4.2%	4.2%
Total cost	32.0%	6.0%	38.0%
Employee contribution			
Pension plan	7.0%	0.0%	7.0%
CAP	0.0%	1.4%	1.4%
Total employee	7.0%	1.4%	8.4%

25.0%

~~29.4%~~

27.3

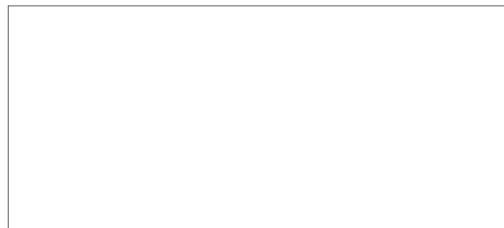
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Note For The Record

Subject: Discussion with Ed Huskard
 Re Cost of an additional
 .3% accrual to Roth/Steens
 Bill

Per Ed Huskard, if the accrual
 Rate under the Roth/Steens Supplemental
 Retirement Bill (S-152) were increased
 from 1% to 1.3% the additional
 cost of payroll would be 3.9% raising
 the total cost of payroll from 21.9% to
 25.8%. An increase of .25% (from
 1% to 1.25%) would cost 3.3% of payroll.

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COST COMPARISONS BETWEEN AGENCY, FORD, AND ROTH/STEVENS PROPOSAL

	<u>Current</u> <u>CIARDS</u>	<u>CIARDS</u> <u>Original</u> <u>Agency</u> <u>Proposal</u>		<u>Current</u> <u>CSRS</u>	<u>CSRS</u> <u>Original</u> <u>Agency</u> <u>Proposal</u>	<u>Roth/Stevens</u> <u>Proposal</u> <u>Post-1983</u>	<u>Ford</u>
Total Employer Cost	41.0%	49.7%		25.0%	27.3%		
MINUS Thrift Plan	NA	- 2.0%	Roth/ Stevens and Ford have not as yet provided	NA	- 1.4%		
MINUS 2 1/2% for Overseas Service		- 6.4%	any com- parable figures for special categories		- .2%		
TOTAL COST	41%	41.3%		25%	25.7%	21.9%	25.5%

harsh security of personnel

	<u>Roth/Stevens</u>		<u>Ford</u>		<u>Agency</u>	
	<u>Regular</u>	<u>Special</u>	<u>Regular</u>	<u>Special</u>	<u>Regular</u>	<u>Special</u>
	.9 (15 yrs)	1.0	1.0	1.7 (20 yrs)	1.2-1.4	1.4-1.6
	1.1			1.5		
	No supplement Thrift	Supplement Thrift	Supplement Thrift	Supplement Thrift	Supplement No Thrift	Supplement No Thrift
	21.9		25.5		25.7	(41.3)
Contribution	5.7 or 5.7+1.3	5.7	5.7+1.3	5.7+1.8	5.7+1.3	5.7+1.3
	high 5		high 3		high 3	
	Age 55 Age 50	Age 50	Age 55	Age 50	Age 55	Age 50
COA R	Reduced Reduced	Reduced	-	-	-	-

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	<u>Employees Hired Prior to 1 Jan 84</u>	<u>Employees Hired On Or After 1 Jan 84</u>
Aggregate Cost of Current CIARDS & CSRS	34%	----
Aggregate Cost of Proposed Legislation	39.5%	39.8%

OPTIONS FOR REDUCING COST OF PROPOSED RETIREMENT LEGISLATION

1) Reduce Cost-of-Living Adjustments from Full to 2/3 COLA	-5%	Same
2) Increase Employee Contribution for 7% to 9%	-2%	Same
3) High-3 to High-5	-2%	Same
4) Eliminate Thrift Plan Option	-1.8%	Same
5) Eliminate 2 1/2% for Overseas Service	-3.8%	Same
6) Impose a 2% Reduction for Each Year of Retirement Under Age 55 for CIARDS & Age 60 for CSRS	-4%	Same